

Message Text

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TO AMEMBASSY JAKARTA IMMEDIATE

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FOR AMBASSADOR FROM EDMOND

E.O. 11652:GDS

TAGS: EFIN, EGEN, ID

SUBJECT:EXIM LENDING TO INDONESIA

REFS: A. JAKARTA 10561; B. JAKARTA 10815

1. WE ARE MAKING MAJOR EFFORT WITH EXIM TO FIND METHOD OF REVERSING ADVERSE DECISION ON GE LOCOMOTIVES. HAVE DETERMINED THAT ISSUE IS MORE BASIC THAN INDONESIA'S CONTINUED REFUSAL OR INABILITY TO PROVIDE REQUESTED INFORMATION DESPITE FACT THAT EXIM HAS BEEN TRYING TO OBTAIN INFORMATION FOR MORE THAN A YEAR. EXIM HAS ASCERTAINED GROWING CONCERN IN U.S. PRIVATE BANKING CIRCLES AS WELL AS IN BERN UNION AS TO INDONESIA'S ABILITY MEET ITS FINANCIAL OBLIGATIONS WITHOUT DEBT RESCHEDULING. A RECENT INTELLIGENCE REPORT, FOR EXAMPLE, INDICATES THAT INDONESIA HAS BEEN UNSUCCESSFUL IN ATTEMPTING TO FLOAT 300-400 MILLION DOLS LOAN IN EUROPEAN AND ASIAN FINANCIAL CENTERS. REFUSAL TO FURNISH INFORMATION ONLY ADDS FUEL TO SUSPICION THAT INDONESIA IN CRITICAL FINANCIAL POSITION. SECRECY OF GOI

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POSSIBLY MAGNIFIES CONCERN BEYOND THAT WHICH WOULD BE

WARRANTED BY FACTS, IF THEY WERE AIRED. EXIM, WHICH NOW HAS OVER 600 MILLION DOLS. EXPOSURE IN INDONESIA, STILL HAS STRONG RECOLLECTION OF ITS EARLIER DIFFICULTIES WITH ITS INDONESIAN LOANS WHICH IS HEAVILY COLORING ITS PRESENT ATTITUDE. I THINK INDONESIANS MIGHT WISH CONSIDER THAT THEY HAVE MORE TO GAIN THAN TO LOSE BY A POLICY OF GREATER FINANCIAL OPENESS SINCE THEIR FINANCIAL SITUATION CURRENTLY IS BEING SO CLOSELY WATCHED.

2. IN CONNECTION WITH THE PARTICULAR GE CREDIT APPLICATION, GE HAS INFORMALLY CALLED TO EXIM'S ATTENTION FACT THAT BANK HAS OUTSTANDING UNTIL SEPTEMBER 30, 1976 A PRELIMINARY COMMITMENT TO GE TO PROVIDE 11.6 MILLION DOLS DIRECT CREDIT COVERING 81 DIESEL ELECTRIC LOCOMOTIVES FOR EXPORT TO INDONESIA OF SMALLER HORSEPOWER THAN 21 LOCOMOTIVES COVERED BY REJECTED APPLICATION FOR FINAL COMMITMENT. APPROVED IN LATE FEBRUARY 1976, THIS PRELIMINARY COMMITMENT DOES NOT REQUIRE GOI TO PROVIDE FINANCIAL DATA OF TYPE BANK HAS RECENTLY REQUIRED. GE NO LONGER HAS ANY REALISTIC HOPE OF SELLING 65 OF THESE 81 ENGINES TO GOI. WHAT GE HAS INFORMALLY PROPOSED IS THAT EXIM SUBSTITUTE THE 21 LOCOMOTIVES, WHICH WOULD CALL FOR A DIRECT CREDIT OF 4.5 MILLION DOLS, FOR 65 OF THE 81 LOCOMOTIVES WHICH CALLED FOR A DIRECT CREDIT OF 7.6 MILLION DOLS. THE REMAINING 16 LOCOMOTIVES COVERED BY THE PC, CALLING FOR 4 MILLION DOLS DIRECT CREDIT, WOULD REMAIN IN THE PC. AT THE DEPARTMENT'S REQUEST EXIM IS LOOKING SERIOUSLY AT THIS POSSIBLE MEANS OF DEALING WITH PROBLEM ALTHOUGH THE EXIM BOARD APPEARS TO BE VERY DUBIOUS ABOUT EXTENDING FURTHER CREDITS TO INDONESIA UNDER PRESENT CIRCUMSTANCES. IF BANK APPROVES THIS PROPOSAL, A 11.3 MILLION DOLS EXPORT ORDER WOULD BE SAVED AND ANY PROBLEMS FOR GOI CAUSED BY LACK OF OFFICIAL US EXPORT CREDIT FOR 21 LOCOMOTIVES WOULD BE AVOIDED.

3. YOUR 10815 JUST RECEIVED. I WILL ATTEMPT TO USE TO BEST ADVANTAGE WITH EXIM BANK, BUT FEAR SALIM MAY BE MISSING POINT. EXIM WOULD BE ENTIRELY UNCONCERNED ABOUT CANCELLATION OF LOAN REQUEST AND WOULD IN FACT ISSUE COLLECTIVE SIGH OF RELIEF. EXIM OFFICIALS BELIEVE THEM-

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SELVES AS GOOD JUDGES AS WE CONCERNING COMMERCIAL IMPLICATIONS OF LOAN CANCELLATION VERSUS THEIR FIDUCIARY RESPONSIBILITIES CONCERNING USE OF GOVERNMENT FUNDS. THE TOUGH ISSUE THAT THEY ARE FACING NOW IS THEIR DESIRE NOT TO TAKE ANY ACTION THAT WOULD BE ADVERSE TO OUR OVERALL RELATIONSHIP WITH INDONESIA AND YET AT THE SAME TIME TO MEET THEIR CONGRESSIONALLY MANDATED RESPONSIBILITIES. KISSINGER

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